

The assistant legislative clerk proceeded to call the roll.

Mr. LAUTENBERG. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

MORNING BUSINESS

Mr. LAUTENBERG. Mr. President, I ask unanimous consent that the Senate now proceed to a period for the transaction of morning business, with Senators permitted to speak therein for up to 10 minutes each.

The PRESIDING OFFICER. Without objection, it is so ordered.

INTERNET TAX MORATORIUM

Mr. ALEXANDER. Mr. President, the House voted recently 405 to 2 to extend the current Internet tax moratorium which expires at the end of this month. They voted to extend it for 4 more years. I believe the Senate should do the same thing and do it before the end of the month rather than enact a permanent moratorium, as some want to do, because permanent action is likely to invoke a far higher law—the law of unintended consequences.

We can't imagine the future impact of the World Wide Web, and a permanent moratorium could produce at least two unintended consequences: No. 1, a big unintended tax increase, or No. 2, a big unintended, unfunded Federal mandate.

Here is an example of how a permanent moratorium could produce an unintended new tax. At the time the original moratorium was enacted in 1998, Internet access meant dial-up. Today, Internet access also includes broadband. Fortunately, Congress updated the moratorium definition in 2004 so that access to broadband is exempt from taxation.

Or, here is an example of how an outdated moratorium could produce an unintended, unfunded Federal mandate on States, cities, and counties. States and local governments collect billions of dollars in sales tax on telephone services to pay for schools, roads, police, and hospital workers. Under the old definition of Internet access, telephone calls made over the Internet might have escaped such taxation. That might sound good to conservatives like me who favor lower taxes, but most members of my Republican Party were elected promising to end the practice of unfunded Federal mandates—that is, those of us in Washington telling Governors, mayors, and county commissioners what services to provide and how to pay for them. In fact, Republican candidates for Congress stood with Newt Gingrich on the Capitol steps in 1994 and said, as part of a Contract With America, “No more unfunded mandates. If we break our promise, throw us out.” In 1995, the new Republican Congress enacted a new Federal Unfunded Mandates Reform Act, banning unfunded mandates.

Make no mistake, Mr. President, the permanent extension that is proposed would be an unfunded Federal mandate because it would not allow the grandfathered States—and there are currently nine of them collecting this tax—the ability to continue to make their own decisions about what revenues to collect. It would freeze into place forever an Internet access definition that might not be wise for industry and that might not be wise for State and local governments.

That is why so many people support the idea of a 4-year moratorium on taxation of Internet access. It has the support of the National Governors Association, the National Association of Counties, The U.S. Conference of Mayors, the National League of Cities, the Multistate Tax Commission, and the AFL-CIO.

In addition to that, even though many in the industry would like to have a longer moratorium, the Don't Tax Our Web Coalition has written a letter to JOHN CONYERS, chairman of the House Judiciary Committee, saying that they prefer the permanent extension but that they believe the House-passed bill is a step forward and one they can support.

Mr. President, I ask unanimous consent to have printed in the RECORD a copy of the letter from the Don't Tax Our Web Coalition and also a copy of the Congressional Budget Office cost estimate from September 9, 2003, which makes absolutely clear that such a law would be an unfunded Federal mandate under the terms of the 1995 Unfunded Federal Mandate Act.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

DON'T TAX OUR WEB COALITION,
October 2, 2007.

Hon. JOHN CONYERS, JR.,
Chairman, Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR CHAIRMAN CONYERS: On behalf of the Don't Tax Our Web Coalition (“Coalition”), I am pleased to express the Coalition's support of your effort to extend the Internet tax moratorium. Your continued leadership on these and other important matters affecting our industry is critical to consumers, and to strengthening the economy and job creation.

H.R. 3678, if enacted, would provide a temporary, four-year extension of the moratorium that is set to expire on November 1. Your bill also contains important definitional and statutory changes that improve current law. H.R. 3678 will provide much needed clarity to the communications and internet industries. By helping keep Internet access affordable, the moratorium promotes ubiquitous broadband access.

As you know, the Coalition has long endorsed H.R. 743, the Permanent Internet Tax Freedom Act. While we prefer a permanent extension, we believe that H.R. 3678 is a step forward and thus a bill we can support.

We look forward to continuing to work with you on this most important issue.

Sincerely,

BRODERICK D. JOHNSON.

S. 150—Internet Tax Nondiscrimination Act

Summary: S. 150 would permanently extend a moratorium on certain state and local taxation of online services and electronic

commerce, and after October 1, 2006, would eliminate an exception to that prohibition for certain states. Under current law, the moratorium is set to expire on November 1, 2003. CBO estimates that enacting S. 150 would have no impact on the federal budget, but beginning in 2007, it would impose significant annual costs on some state and local governments.

By extending and expanding the moratorium on certain types of state and local taxes, S. 150 would impose an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the mandate would cause state and local governments to lose revenue beginning in October 2006; those losses would exceed the threshold established in UMRA (\$64 million in 2007, adjusted annually for inflation) by 2007. While there is some uncertainty about the number of states affected, CBO estimates that the direct costs to states and local governments would probably total between \$80 million and \$120 million annually, beginning in 2007. The bill contains no new private-sector mandates as defined in UMRA.

Estimated cost to the Federal Government: CBO estimates that enacting S. 150 would have no impact on the federal budget.

Intergovernmental mandates contained in the bill: The Internet Tax Freedom Act (ITFA) currently prohibits state and local governments from imposing taxes on Internet access until November 1, 2003. The ITFA, enacted as Public Law 105-277 on October 21, 1998, also contains an exception to this moratorium, sometimes referred to as the “grandfather clause,” which allows certain state and local governments to tax Internet access if such tax was generally imposed and actually enforced prior to October 1, 1998.

S. 150 would make the moratorium permanent and, after October 1, 2006, would eliminate the grandfather clause. The bill also would state that the term “Internet access” or “Internet access services” as defined in ITFA would not include telecommunications services except to the extent that such services are used to provide Internet access (known as “aggregating” or “bundling” of services). These extensions and expansions of the moratorium constitute intergovernmental mandates as defined in UMRA because they would prohibit states from collecting taxes that they otherwise could collect.

Estimated direct costs of mandates to state and local governments: CBO estimates that repealing the grandfather clause would result in revenue losses for as many as 10 states and for several local governments totaling between \$80 million and \$120 million annually, beginning in 2007. We also estimate that the change in the definition of Internet access could affect tax revenues for many states and local governments, but we cannot estimate the magnitude or the timing of any such additional impacts at this time.

UMRA includes in its definition of the direct costs of a mandate the amounts that state and local governments would be prohibited from raising in revenues to comply with the mandate. The direct costs of eliminating the grandfather clause would be the tax revenues that state and local governments are currently collecting but would be precluded from collecting under S. 150. States also could lose revenues that they currently collect on certain services, if those services are redefined as Internet access under the bill.

Over the next five years there will likely be changes in the technology and the market for Internet access. Such changes are likely to affect, at minimum, the price for access to the Internet as well as the demand for and the methods of such access. How these technological and market changes will ultimately affect state and local tax revenues is